

The Determinants of Entrepreneurship Activities: A literature Review

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Abstract: *Despite the increase attentions by researchers to the entrepreneurship as a field of study, the review of the literature indicates research in this important area of study remain limited, specifically related to the factors that determine entrepreneurial activities. Therefore, this paper aims to investigate the factors that determine entrepreneurial activities. Based on the review of the literature and past studies, the study reveals six factors that influence the entrepreneurial activities. These factors are Regulatory Framework, Market Conditions, Access to Finance, Creation and Diffusion of Knowledge, Entrepreneurial Capabilities and Entrepreneurship Culture. This study, proposed a research framework that indicates the influence of these factors on the entrepreneurial activities. Furthermore, the study suggests an empirical investigation to test their influence on entrepreneurial activities.*

Keywords: *Entrepreneurship, Determinants, Entrepreneurial Activities.*

1. INTRODUCTION

Entrepreneurship has continued to gain more importance for their role in global economies. The importance of entrepreneurial activities is associated to their economic growth and development by poverty reduction and provision of employment opportunity to a nation. They play a vital role to Gross Domestic Product (GDP) of both developed and developing nations.

Moreover, in developing countries such as Nigeria, the entrepreneurial activities have been recognized as one of the effective means of eradicating poverty in these countries. Example, entrepreneurship contributes greatly to the employment generation as well as economic development of a nation. According to the National Bureau of Statistics (2016), entrepreneurs in Nigeria are accounted for 63.32% in the ownership structure of micro enterprises.

As entrepreneurs, their success depends very much on the number of factors and how well they are being managed. With regards to the growth and continuity of, some continue to maintain their success while others appear to be less successful. The successful entrepreneurs can perform and sustain because of their ability to adopt effective factors that influence their performance. However, in the case of the unsuccessful entrepreneurs, most often, they failed because of lack of the factors (Abraham & Balogun, 2012; Adeusi, Akeke, Aribaba, & Adebisi, 2013; Congo, 2002; Dunford, 2000; Worldbank, 2017).

The review of the literature shows that although the number of researches that focused on entrepreneurship seems to increase, an evaluation of past studies highlights several limitations with the studies. Such as, inadequate information about the factors that determine entrepreneurship activities. However, even among the few studies that examined entrepreneurial activities in developed countries, the studies failed to investigate and conceptualize major factors that determined entrepreneurial activities. Furthermore, research on previous studies on entrepreneurship are mostly focused on women, social network, motivation, technical advice and services (Ravi & Nor Aishah, 2016; Sok, Snell, Jin, Lee, &

Sok, 2017; Utami, 2017). Considering the importance of Regulatory Framework, Market Conditions, Access to Finance, Creation and Diffusion of Knowledge, Entrepreneurial Capabilities and Entrepreneurship Culture to entrepreneurial activities, very few studies examined the variables as the determinant of entrepreneurial activities (Engelke, Mauksch, Darkow, & von der Gracht, 2014; Majumdar, 2013; Robinson, Stimpson, Huefner, & Hunt, 1991)..

Given this information and research gaps, this paper attempts to investigate the factors that determined the entrepreneurial activities as identified and promoted in the literature and previous studies. For this purpose, the paper is presented in four sections. The following Section Two examines the concept entrepreneurial activities. Next, Section Three highlights the six factors that are considered not only as the determinant of entrepreneurial activities but also their sustainable performance. Finally, Section Four presents a short conclusion of the paper.

Entrepreneurial Activities

Several definitions of entrepreneur and entrepreneurship abound in the literature. If entrepreneurship is seen as a set of activities performed by an entrepreneur, it could be argued that being an entrepreneur precedes entrepreneurship. An entrepreneur can be described as one who initiates and establishes an economic activity or enterprise (Hafizullah *et al.*, 2012). Tambunan (2009) merely refers to an entrepreneur as a self-employed person, but Drucker (1985) further describes the entrepreneur as someone who actually searches for change, responds to it, and exploits the change as an opportunity. Drucker (1985) quoted the French Economist J. B. Say who said around 1800 that “an entrepreneur is often one who starts his own new and small business in order to shift economic resources out of an area of lower productivity into an area of higher productivity and greater yield.” An entrepreneur can be described as one who starts his own new and small business, who shifts economic resources from an area of lower productivity into an area of higher productivity and greater yield.

Although this study also considers an entrepreneur as a person who identifies an opportunity, organises and operates a business venture off the opportunity, while bearing all the associated risks, it however adopts the conceptual view of Hafizullah *et al.* (2012) that an entrepreneur is one who initiates and establishes an economic activity or enterprise, and also assumes all the associated risk.

Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence (Hisrich, 1989). According to Ullah, Mahmud & Yousuf (2013), entrepreneurship has different meanings to different people, and in fact, Yusuf (2013) adds that different people have different motives and intentions of going into entrepreneurship. Eijdenberg and Masurel (2013) assert that people in developing countries are more driven by necessity (poverty, survival, and lack of job) to become entrepreneurs while in the developed economies entrepreneurial activities stem out of the desire to seize an opportunity and innovation.

In their submission also, Hafizullah *et al.* (2012), defined entrepreneurship as the act of bringing and implementing novel ideas or modifying the old ones to bring innovations into businesses that have the ability to create value. Entrepreneurship also refers to the general trend of setting up new enterprises in a society (Nawaz, 2009; Begum, 1993). In the words of Timmons *et al.* (1989), “entrepreneurship is the process of creating and building something of value from practically nothing. That is, it is the process of creating or seizing an opportunity and pursuing it regardless of the resources currently controlled. It involves the definition, creation and distribution of values and benefits to individuals, groups, organizations and society. Entrepreneurship is very rarely a get rich-quick proposition (not short term); rather it is one of building long term value and durable cash flow streams.” Along this line, Eckhardt and Shane (2003) conceive of entrepreneurship as the identification and assessment of opportunities, the decision to exploit them by oneself or sell them, effort to obtain resources and the development of the strategy and organization of the new business project. In the same vein, Stevenson and Jarillo (1990) see entrepreneurship as a process by which individuals either on their own or within organizations pursue opportunities. Generally, entrepreneurs are considered as vital factors in initiating and providing social and fiscal development.

Although the present study sees entrepreneurship essentially as a creative, risk-taking business activity or an innovative venture within a given socio-cultural environment, Krizner's (1983) conception of entrepreneurship is considered relevant

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and is therefore adopted in this work. Krizner (1983) thinks of entrepreneurship as the process of perceiving profit opportunities and initiating actions to fill unsatisfied market needs or doing more efficiently what is already being done. Because there is no market for “opportunities,” the entrepreneur has to exploit the opportunities, that is, he or she must develop capabilities to obtain resources as well as organize and make the most of the opportunities.

The work of Noguera (2012), in consonance with the contributions of notable works like those of Sexton (1986); Hisrich (1989); Storey (1994); Reynolds (2005); Terrell & Troilo (2010); Mohedano & Sole (2011); Riebe (2012), note that in the last decades, business creation had had an important impact on economic development and innovation in many countries and their respective regions as well as on the creation of jobs. This is essentially in the wake of globalization which has continued to reshape the international economic landscape as much as technological change has continued to create greater uncertainty in the world economy.

However, the dynamism of entrepreneurship, it is believed, can help to meet the new economic, social and environmental challenges created by both globalization and technological change. Gradually, many governments have begun to consider entrepreneurship and innovation as the cornerstones for a competitive national economy, and in most countries, entrepreneurship policies are in fact closely connected to innovation policies, with which they share many characteristics and challenges (Wube, 2010).

This recognition is especially important, because over the last decades, the issue of job creation has remained a critical concern for the Nigerian government particularly as the rate of unemployment continues to increase by the day. In Nigeria, as stated in the background to this work, the rate of unemployment had risen from 7.54% in the first quarter of 2015 to a distressing 18.8% in 2017 (National Bureau of Statistics, 2018). This is the highest joblessness rate since 2009. The creation of a nation’s wealth and dynamism depends upon the competitiveness of its business enterprises and this, in turn, relies principally on the capabilities of its entrepreneurs and managers. Researchers, policymakers and academics therefore agree that entrepreneurship becomes a fundamental route to job creation and economic advancement for both developed and developing economies.

The Determinants of Entrepreneurial Activities

There are quite a number of determining factors of entrepreneurship in extant literature. Base on the review of the literature on past studies, the study identifies six factors that are necessary and applicable to the entrepreneurship activities. The six factors are Regulatory Framework, Market Conditions, Access to Finance, Creation and Diffusion of Knowledge, Entrepreneurial Capabilities and Entrepreneurship Culture. The factors are discussed below.

a. Regulatory Framework

The burden of government regulations plays a significant role in entrepreneurship motivation. For example, firms in developing countries have fewer capabilities and resources. They derive fewer benefits from trade liberalization measures and are less able to capture the benefits of network operation (Cala *et al.*, 2015). Similarly, cost of starting an enterprise, minimum capital requirements, the duration involved in starting a company, number of procedures involved in starting a business plan, procedure and time to participate in building a warehouse, property registration, time spent in filing and payment of income tax, VAT and social contributions are factors that act as determinants.

b. Market Conditions

These determinants include licensing restrictions which is a form of regulation that requires individual who want to perform certain types of work to obtain the permission of the government and price control which is a legal restriction on how high or how low a market price may go.

C. Access to Finance

Determinants of entrepreneurship in this category include country credit rating (An evaluation of the credit risk of a prospective debtor an individual, a business company or a government), predicting their ability to pay back the debt), domestic credit to private sector(which refers to financial recourses provided to households and businesses by financial corporations in the form of loans, purchases of non-equity securities, trade credit and other account receivable), access to

loans,(the ability of individual or enterprises to obtain financial services), lack of financial access limits the range of services and credits for household and enterprises. Another determinant is the interest rate spread (which is the percentage that a bank or other financial company charges when borrowing money) and collateral (which is a form of secondary protection sometimes require by a bank and intended to guarantee a borrower's performance on a debt obligation). Lower income levels in developing countries are also generally accompanied by lack of funding (both due to lack of personal savings and reduced access to external capital). In particular, firms in developing countries have less access to credit and have to deal with a more limited financial system (Cala *et al.*, 2015).

d. Creation and Diffusion of Knowledge

Knowledge systems in developing countries usually have intense deficiencies that prevent technology-based firms from emerging. For example, science and technology institutions are weak, stiff and face serious financial restrictions. Links and interaction between government support organizations and investment in human capital is low and public policy is only partially effective (Alcorta and Peres, 1998). Since only few entrepreneurs have college education, most do not start high growth business. Research and Development (R & D) activity that involves business expenditure on R & D (BERD), Government expenditure on R & D (GERD), Higher Education Expenditure on R & D (HERD) and International cooperation on patent rights, private and public funding of R & D activities and transfer of non-commercial knowledge, cooperation among firms for innovation, e-Commerce and ICT expenditure have also been identified as a set of determinants.

e. Entrepreneurial Capabilities

Entrepreneurial capabilities are not generally taught in the education programmes. Knowledge of business and finance, and educational level may contribute to entrepreneurial success (Bosma *et al.*, 2000). The determinants here include capabilities which are developed by tertiary education, quality of management schools and internship during school regarding starting a business, immigration of labour, self-employment by place of birth and stocks of foreign labour.

f. Entrepreneurship Culture

Intention to become self-employed, entrepreneurial intention (a state of mind that people wish to create a new firm or a new value driver inside existing organization (Wu and Wu, 2012)), entrepreneurial motivation (intensity at which entrepreneur works towards his/her goal as well as persistence of the effort (Robbins and Judge, 2012)), entrepreneurship among managers, entrepreneurs as job generators, that exploit others' work, basis for wealth creation, entrepreneurs that only are concerned about their income and fear of failure are some of the features of entrepreneurial culture and serve as another set of determinants (OECD, 2011).

The Proposed Framework for Determinants of Sustainable Performance

Evidence from the review of the literature shows the linkage between Regulatory Framework, Market Conditions, Access to Finance, Creation and Diffusion of Knowledge, Entrepreneurial Capabilities and Entrepreneurship Culture and entrepreneurial activities. For instant, previous studies by Cala *et al.* (2015). identified regulatory framework as determinant of entrepreneurial activities. In another study by Sok, Snell, Jin, Lee, & Sok, (2017)shows Market Conditions influences the entrepreneurial activities. It has been established in their study that Access to Finance is one of the significant resources in attaining entrepreneurial activities. Similarly, study Zhang Cain, (2017)indicates that Creation and Diffusion of Knowledge in business is an important element for entrepreneurial activity. Entrepreneurial Capabilities is being recommended as an essential tool for determinants of entrepreneurial activities. Equally important, previous research have provided the evidence that indicate the linkage between Entrepreneurship Culture and entrepreneurial activities (Amoo & Kolawole, 2015).

As shown in Figure 1 the proposed framework consists of seven research variables. These research variables include Regulatory Framework, Market Conditions, Access to Finance, Creation and Diffusion of Knowledge, Entrepreneurial Capabilities and Entrepreneurship Culture independent variables and entrepreneurial activities as the dependent variable.

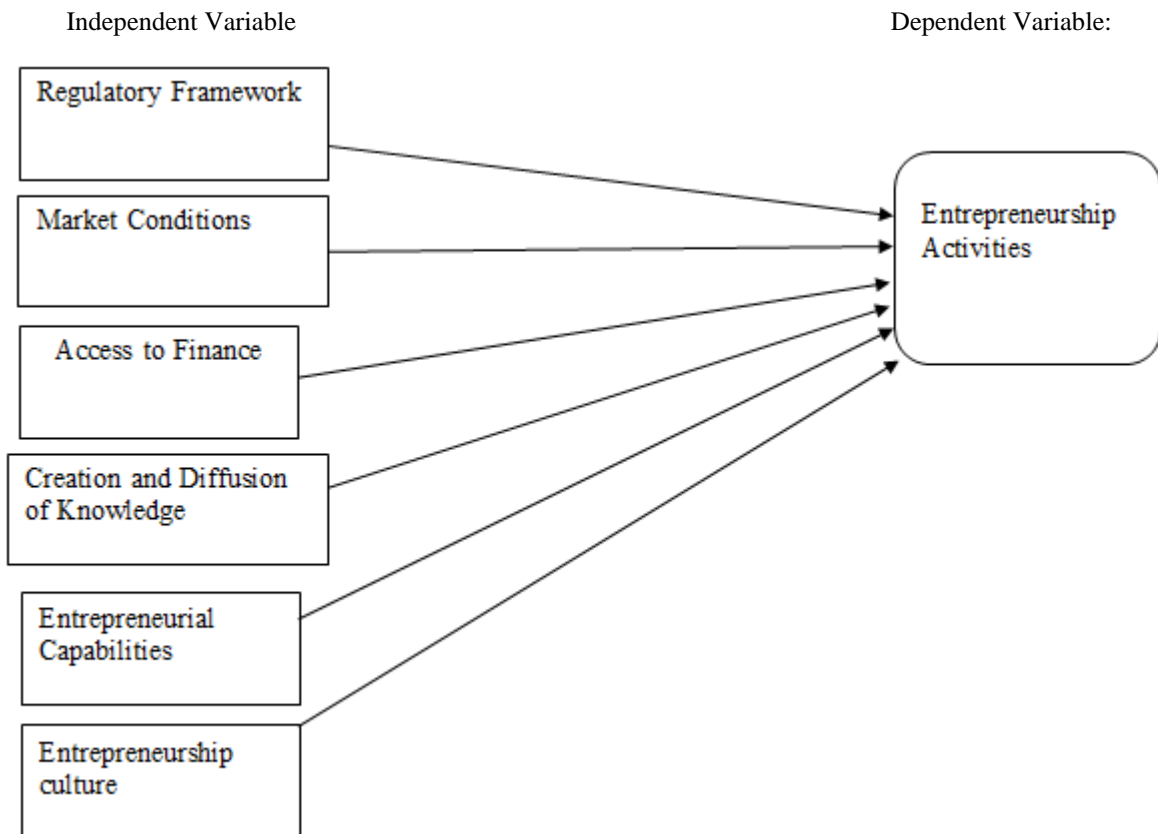


Figure 1: The Research Framework

The framework of the research is that the relationships between Regulatory Framework, Market Conditions, Access to Finance, Creation and Diffusion of Knowledge, Entrepreneurial Capabilities and Entrepreneurship Culture have implications on the entrepreneurial activities.

CONCLUSION

This paper reviews six factors that are considered important to the entrepreneurial activities. The six factors presented in the paper include; Regulatory Framework, Market Conditions, Access to Finance, Creation and Diffusion of Knowledge, Entrepreneurial Capabilities and Entrepreneurship Culture. Specifically, the paper proposed a framework that indicates relationship between the determinants and entrepreneurial activities. These six factors were identified from the review of the literature and previous studies.

The review of the determinants suggests that these factors are linked to the sustainability of entrepreneurial activities. Findings of previous studies have provided empirical evidence that suggests entrepreneurs that adopt the six factors were able to not only improve their operations but also enhance their sustainability. This is in line with the previous and past studies that show these factors have an influence on the entrepreneurial activities (Kolk, 2016;; Setyanti et al., 2013; Kauffman and Riggins, 2012). The study suggests an empirical investigation to test the determinant of entrepreneurial activities.

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